

Council on Postsecondary Education
September 21, 2003

2004-06 Operating and
Capital Budget Development Update

As discussed in earlier Council meetings, updates regarding several 2004-06 budget development issues will be presented at each remaining Council meeting leading up to the November approval of the recommendation. The following updates are included in this agenda: (1) status of recommendations from working committees related to budget development; (2) 2004-06 capital budget; (3) tuition rates and revenues; (4) central tendency calculation; (5) benchmark funding model technical updates; and (6) submitted special initiatives funding requests.

Status of recommendations from budget working committees

Benchmark Funding Distribution Methodology Committee:

The committee has been working since May to develop a set of principles and procedures that can be used to allocate benchmark funds or to implement cuts in state General Funds to institutions after the Council has adopted the 2004-06 budget recommendation. The recommendation will be presented at the November Council meeting.

Endowment Match Program Committee:

This committee has been working since May to revise the 2002-04 guidelines for the Endowment Match Program (Bucks for Brains) in response to recommendations presented by auditors, legislators, and the Program Review and Investigations Committee. The recommended revisions to the guidelines are presented in the agenda item on page 35 and represent a collective solution among the institutions and Council staff based on numerous work sessions with committee members.

Enrollment Growth and Productivity Committee:

Representatives for this committee also included various institutional and Council staff. The committee is working collectively to develop some basic principles and guidelines for requesting and distributing allocations for the

purpose of rewarding and providing incentives to institutions that increase productivity and enrollments consistent with the goals of House Bill 1.

There are several issues that remain to be resolved and the draft guidelines, if finished in time, will be emailed to the Council members prior to the September meeting. Detailed procedures are also still in process to determine calculation and distribution methodologies based on the measures and goals. These procedures could possibly be finished in time to present to the Council in September; otherwise, they will be presented in November. In addition, the amounts to be requested for the trust fund will be discussed further with presidents and Council members as the budget recommendation is being developed.

The current draft of the revised guidelines has been renamed to more accurately reflect the criteria that determine incentive fund distribution. This comprehensive incentive fund will reward campuses for several important enrollment growth and productivity measures. These guidelines will represent the major framework for the trust fund. A summary of the working draft of the guidelines is attached beginning on page 17 ([Attachment A](#)).

Capital Budget Request

Each public university and the Kentucky Community and Technical College System have submitted a 2004-06 capital budget request. The Council staff entered into a contract with David Banks and Associates to complete a limited analysis and update of the 2001 Facilities Condition report. [Attachment B](#) beginning on page 18 includes a summary of the six highest institutional priorities for capital projects supported by the General Fund.

Priorities

For the 2004-06 capital budget, the Council staff offers for discussion the following statewide priorities to be financed with state General Funds:

- Partnership with U.S. Department of Education, Office for Civil Rights
- Capital renewal and maintenance
- Technology initiatives
- Equipment
- Major renovations of education and general (E&G) facilities
- Construction of Research Space
- Construction of new (E&G) facilities or expansion of existing facilities

Tuition Rates and Revenue Issues

Institutional Report on Tuition Rates and Revenues

The Council approved tuition setting guidelines for the 2004-06 biennium at the May 19, 2003, meeting. The guidelines delegate tuition setting responsibility to the institutions and require the institutions to report estimated tuition rates and projected tuition and fees revenue for each year of the 2004-06 biennium by September 1, 2003. It is important to note that tuition rate decisions can be difficult to make and projections regarding needed tuition revenue hard to forecast during the uncertainty surrounding the current revenue and economic environment; the rates are estimates and are subject to change. The institutions will notify the Council of any changes in tuition rates.

The tuition rates by level and residency status are detailed beginning on page 22 ([Attachment C](#)). Budgeted 2003-04 and estimated 2004-05 and 2005-06 tuition and fees revenue are presented beginning on page 30 ([Attachment D](#)).

Tuition Percentages Deduction (actual calculations)

A key consideration in the development of each institution's funding need is the amount of public funds that should be generated by tuition and fees. The Points of Consensus includes a provision that a standard percentage for tuition and fees revenue or budgeted tuition and fees revenue, whichever is lower, be deducted from the public funding amount to determine the 2004-06 state appropriation objective.

In May, the Council approved the 2004-06 tuition setting guidelines. The guidelines include a standard tuition and fees deduction to determine the 2004-06 state appropriation objective for each institution. The standard deduction or budgeted FY 2003-04 tuition and fees revenue, whichever is lower, will be used in developing each institution's 2004-06 benchmark funding need. The standard deduction is 30 percent for the KCTCS, Lexington Community College, and Kentucky State University, and 37 percent for the other universities. A table detailing the percentages to be used in the benchmark funding model is on page 31 ([Attachment E](#)).

Benchmark Funding Model Technical Updates

The 2004-06 Benchmark Funding Model uses 2000-01 financial data, as reported to the Integrated Postsecondary Education Data System (IPEDS), to calculate the public funds per full-time equivalent (FTE) student for the Kentucky and benchmark institutions. Based on a discussion and consensus

among the Chief Budget Officers, the same measure of central tendency that was used in the previous model calculations will be retained to determine the funding objective. An inflationary factor will be used to impute 2003-04 objectives since there is a lag in available data. This is the same approach used in the past two biennia.

For the 2004-06 calculations, the consumer price index will be used. The 2000-01 data will be inflated by the actual inflation rate for 2001-02 of 1.6 percent and 2002-03 of 2.4 percent. A projected rate will be used for 2003-04 of 2.3 percent; inflation factors are obtained from the U.S. Department of Labor, Bureau of Labor Statistics.

Special Initiatives Funding Requests

The Points of Consensus stipulates that institutions be given an opportunity to submit requests for special and meritorious initiatives for the 2004-06 biennium, and that the guidelines and evaluation criteria governing distributions for such initiatives be promulgated well in advance. In July, the Council approved the 2004-06 Special Initiatives Funding Requests Guidelines and Evaluation Criteria.

The guidelines stipulate that special funding requests for the 2004-06 biennium be submitted no later than September 1, 2003. Each public university may submit up to three special funding requests in priority order, and KCTCS officials may submit up to five requests in priority order. As of September 4, the institutions submitted 30 special requests totaling \$45,431,097 for 2004-05 and \$7,831,398 for 2005-06. [Attachment F](#) (page 32) includes a summary of the special funding requests.

Each request for special funding will be evaluated by Council staff based on a set of criteria approved by the Council in July. These criteria include: (a) the unique nature and strategic opportunity represented by a request; (b) the potential for enhancing collaboration; (c) the degree to which the project cannot be financed out of base budgets or trust funds; (d) the potential for furthering the Council's Action Agenda, Kentucky's 2020 goals, and the five questions measuring progress; (e) the institution's priority ranking; and (f) the availability of matching funds to support the project. Following the Council staff's evaluation of the requests and discussion with the institutions, a recommendation for special initiative funding will be presented at the November Council meeting.